

Risk Management - A Personal Perspective from a Practicing Programme and Project Manager.

Disclaimer: The following observations are from the personal experiences of the author gained from 30 years active in Programme, Project, Engineering and Safety Management. The article does not reference peer reviewed published work, but has some links to peer reviewed material. Acknowledgement is implicit rather than explicit. The article is intended to be thought and debate provoking. The article is in no way exhaustive, barely scratching the surface of the subject.

Introduction

Risk Management is often talked about in programme and project management, financial management, safety management and in many aspects of everyday life. It is, however, in the authors experience, not consistently or coherently applied and as such can have limited effectiveness. In this think-piece I will share some of my experiences, and my views on how risk management should be applied and developed for best effect. Whilst this is written primarily from a programme and project viewpoint I will refer to other disciplines such as safety management and financial decision making. I will not directly reference peer-reviewed published material, but the interested reader may see some links to this. References are implicit rather than explicit in this text.

It could be argued that risk management, subconscious, intuitive, is as old as human evolution, and the "gut feel" remains an important stimulus in many people's qualitative appreciation of risk. This approach can only take us so far and with the increasing complexity of systems (engineering, social, economic), more rigorous approaches are required and indeed have been developed.

The author's first exposure to these more formal approaches was in the late 1980's and it was about this time that some Universities were appointing professors of Risk Management - the discipline was becoming established. Again, it was about this time that the Association for Project Management (APM) published its first Body of Knowledge (BoK), and this publication, now in its sixth edition, devotes an entire section, scratching the surface of the topic. This, with the more extensive PRAM publication are just two amongst the hundreds of thousands that are available. The effective project and risk manager must be selective and intelligent in risk planning and management and in the selection of standards and guidance.

Appetite and Attitude to Risk

Fundamental, but often overlooked, or assumed, is the establishment of the enterprises risk attitude and risk appetite and the societal norms in the environment in question. The attitudes and appetites for risk in, say, manned space flight will be very different for those applicable to neonatal care. There can however, be striking anomalies in attitudes and appetites, I am reminded of the members of my last team who commuted to work by motorcycle and were exposed to (and were impacted by) risks, orders of magnitude in excess of any that was acceptable in the services that we provided to the Royal Navy. The effective project manager must be aware of differences between stakeholders attitude and appetite and to differences between the stated and real attitudes and appetites of stakeholder individuals or groups. In a conversation with a Whitehall Mandarin, he ruefully observed that his minister was adamant that an aggressive risk-taking approach was essential for delivery of the portfolio, constrained as it was by cost, performance and time

issues - but his behaviour demanded that no risk ever materialised. Important in this early risk-planning is a clear appreciation of, and correlation between, risk and reward and the effectiveness of any risk transfer strategies or practices. Risk is rarely, if ever, wholly transferred, and the clear transfers are probably in the most simple financial examples. In the complex programme or project context, even if significant financial risk is transferred in a hard fought competition, the customer will still retain some (perhaps much) risk, likely to impact in terms of capability (if we don't get the Warship we need, the country goes undefended, irrespective of whether compensating financial transfers have taken place). Also, the decision making environment is likely to be such that root causes of failure can be unclear - fertile ground for the lawyers.

Governance

In some approaches risk is reduced to a single number, the discount rate applied in the Investment Appraisal that underpins a business case, so say, investments in Russia are riskier than those in Canada, and the Russian case attracts a larger number in the discounted cash flow calculation. Useful as these techniques are in the early planning stages of a project or programme, to objectively compare options, they suffer from being largely historical in their derivation and give very little insight into how these risks can be mitigated. In the real world of project delivery, rather than the more insulated world of programme design or programme planning, the tools and techniques must be sufficiently flexible and dynamic to align with the environment. This brings my thoughts to Governance and the dynamics of organisations. In a biological or evolutionary sense, any organism (and projects, programmes, portfolios and organisations can be considered organisms) that cannot react or evolve faster than the environment is destined for extinction. How many Governance arrangements condemn projects to an unsustainably slow pace of decision making and change? Good Governance is not big Governance (how many organisations do you know that in response to a project failure put in place an extra layer or two of Governance, be it gates, assurance, reviews, controls, scrutiny, ensurance, but do nothing to bolster the project teams in terms of resource or skill?). The best response may be to reduce (optimise) Governance not increase it. Good Governance design is an early risk mitigation, getting the governance right for the project, in its environment, and ensuring that informed and empowered managers are delegated, accept and can discharge project responsibility and make timely, informed decisions.

Projects

Moving now to project delivery, in the author's work as a Major Projects Authority (Office of Government Commerce) Gateway Reviewer he is always presented with Risk Registers, variously populated from brainstorming, Delphi, checklists, parametrics, and past projects and covering qualitative and quantitative risks. These registers are recorded in tables, spreadsheets or risk management tools such as @Risk or Predict; and in some examples that is it. The risks are probably admired from time to time, but no structured management is done, apart from worried individuals saying "we really need to do something about that". How can this be? There appear to be a number of reasons, culture is certainly one, latent within the organisation, or driven by senior individuals; another is resource shortage (not enough people, not enough experience); and going back to Governance, structures that strangle risk management rather than drive it, confusing the manager with mixed messages and inconsistencies. Again, there can be a false reliance on the effectiveness of "transfer" as a reduction strategy (rather than the more active, avoid, reduce or consciously accept). An example here is, say, if a necessary technological innovation really needs to be developed from a TRL (Technology Readiness Level) of 4 to a TRL of 7 or 8, transferring the

risk will not automatically ensure the investment necessary and depending on the risk attitude of the new owner, they may consider simulation or emulation as adequate for risk reduction rather than sub scale or full scale prototyping and trials. There are also issues with risk budgets, their allocation and management. Areas that have cried out for investment (like the TRL case previously) have not received it, this "do nothing/do minimum" approach just pushes the risk later in the project lifecycle, perhaps to the verification and validation, test and commissioning phases where the cost of mitigation is vastly more than an early intervention and investment would have been. As an aside, don't forget that risks are rarely wholly independent, but are often treated as if they are. Cross correlation can be important and significant.

Conclusions

And some conclusions? Well, these are scattered throughout the text, but if I were to draw any out they would be around the need for; optimised (lean) governance, not big governance; a professional project manager, resourced properly and early, a culture of proactive and informed risk management, an up to date knowledge of the dynamic project environment, including common factors (risk correlations), early, agreed attitudes and appetites to risk; an objectively agreed risk budget, with the delegation to use it early and effectively. How many projects do you know that have all these in place from the outset and consistently?

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